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The Board of Directors of Allied Group Limited (“Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30th June, 2004 with comparative figures are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30th June, 2004

		<b>Six months ended 30th June,</b>	
		<b>2004</b>	2003
	Notes	<b>Unaudited</b>	Unaudited
		<b>HK\$'000</b>	HK\$'000
		<u>                    </u>	<u>                    </u>
			(Restated)
Turnover	3	<b>952,164</b>	764,609
Other operating income		<b>26,744</b>	25,713
		<u>                    </u>	<u>                    </u>
Total income		<b>978,908</b>	790,322
Cost of sales	4	<b>(95,542)</b>	(88,483)
Brokerage and commission expenses		<b>(98,324)</b>	(33,972)
Selling expenses		<b>(23,123)</b>	(18,460)
Administrative expenses		<b>(214,464)</b>	(192,632)
Impairment losses and revaluation deficits	5	<b>(690)</b>	(56,124)
Bad and doubtful debts		<b>(79,107)</b>	(166,267)
Other operating expenses		<b>(62,800)</b>	(64,630)
		<u>                    </u>	<u>                    </u>
Profit from operations	6	<b>404,858</b>	169,754
Other finance costs	4	<b>(28,709)</b>	(29,064)
Amortisation of goodwill		<b>(3,570)</b>	(3,570)
Release of negative goodwill		<b>129,256</b>	113,898
Amortisation of capital reserve		<b>8,633</b>	8,634
Share of results of associates		<b>96,538</b>	33,961
Share of results of jointly controlled entities		<b>24,648</b>	(1,424)
		<u>                    </u>	<u>                    </u>
Profit before taxation		<b>631,654</b>	292,189
Taxation	7	<b>(94,201)</b>	(42,002)
		<u>                    </u>	<u>                    </u>
Profit after taxation		<b>537,453</b>	250,187
Minority interests		<b>(191,663)</b>	(93,435)
		<u>                    </u>	<u>                    </u>
Profit attributable to shareholders		<b>345,790</b>	156,752
Dividend		<u>                    </u> —	<u>                    </u> —
Earnings per share	8		
Basic		<u>                    </u> <b>HK\$1.3</b>	<u>                    </u> <b>HK\$0.46</b>
Diluted		<u>                    </u> N/A	<u>                    </u> N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***at 30th June, 2004*

		At 30th June, 2004	At 31st December, 2003
		Unaudited	Audited
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Fixed assets		2,332,456	2,334,695
Intangible assets		8,193	7,081
Goodwill		12,206	15,776
Negative goodwill		(723,817)	(831,149)
Properties under development		135,842	131,174
Interest in associates		2,265,783	2,201,871
Interest in jointly controlled entities		1,110,232	1,087,379
Investments	9	612,520	608,785
Loans and advances to consumer finance customers due after one year	10	691,384	569,206
Deferred tax assets		39,344	35,743
		<b>6,484,143</b>	<b>6,160,561</b>
<b>Current assets</b>			
Properties held for sale and other inventories		447,889	447,890
Investments	9	66,092	54,499
Loans and advances to consumer finance customers due within one year	10	1,201,144	1,098,364
Accounts receivable, deposits and prepayments	11	2,653,625	2,893,950
Amounts due from associates		87,582	266,303
Amount due from a jointly controlled entity		1,046	2,056
Tax recoverable		4,882	5,281
Short-term pledged bank deposit		1,362	1,487
Bank deposits, bank balances and cash		791,404	763,072
		<b>5,255,026</b>	<b>5,532,902</b>
<b>Current liabilities</b>			
Accounts payable and accrued charges	12	1,494,627	1,713,726
Amounts due to associates		50,309	38,081
Amount due to a jointly controlled entity		179,104	171,658
Taxation		111,358	60,162
Bank and other borrowings due within one year		1,019,467	1,110,282
Other liabilities due within one year	13	1,118	1,404
		<b>2,855,983</b>	<b>3,095,313</b>
<b>Net current assets</b>		<b>2,399,043</b>	<b>2,437,589</b>
		<b>8,883,186</b>	<b>8,598,150</b>

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**CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)***at 30th June, 2004*

		<b>At 30th June, 2004</b>	At 31st December, 2003
		<b>Unaudited</b>	Audited
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	14	<b>527,010</b>	531,374
Reserves	15	<b>3,951,020</b>	3,624,531
		<b>4,478,030</b>	4,155,905
<b>Minority interests</b>		<b>3,207,873</b>	3,103,967
<b>Non-current liabilities</b>			
Bank and other borrowings due after one year		<b>848,581</b>	941,435
Loan notes	16	<b>320,549</b>	370,529
Deferred tax liabilities		<b>22,609</b>	21,406
Other liabilities due after one year	13	<b>5,544</b>	4,908
		<b>1,197,283</b>	1,338,278
		<b>8,883,186</b>	8,598,150

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June, 2004

		<b>Six months ended 30th June, 2004</b>	2003
	Note	<b>Unaudited HK\$'000</b>	Unaudited HK\$'000 (Restated)
Total equity at 1st January	24	<b>4,155,905</b>	3,989,293
Revaluation increase in investments in securities		<b>7,131</b>	19,194
Exchange differences arising on translation of operations outside Hong Kong		<b>446</b>	(604)
Share of reserve movements of associates		<b>(38)</b>	(2,963)
Share of reserve movements of jointly controlled entities		<b>1,376</b>	(2,532)
Net gains not recognised in the income statement		<b>8,915</b>	13,095
Profit attributable to shareholders		<b>345,790</b>	156,752
Shares repurchased		<b>(14,287)</b>	–
Investment revaluation reserve released on impairment of non-trading securities		<b>386</b>	663
Investment revaluation reserve released on disposal of non-trading securities		<b>650</b>	1,195
Translation reserve released on disposal of subsidiaries		<b>(2,504)</b>	–
Property revaluation reserve released on dilution of interest in an associate		<b>(752)</b>	–
Investment revaluation reserve released on dilution of interest in an associate		<b>23</b>	–
Translation reserve released on dilution of interest in an associate		<b>1</b>	–
Capital reserve released on dilution of interest in an associate		<b>(2)</b>	–
Translation reserve released on disposal of an associate		–	(148)
Capital reserve released on disposal of an associate		–	(237)
Capital reserve released on amortisation		<b>(16,095)</b>	(16,833)
		<b>313,210</b>	141,392
Total equity at 30th June		<b>4,478,030</b>	4,143,780

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30th June, 2004*

	<b>Six months ended 30th June, 2004</b>	2003
	<b>Unaudited HK\$'000</b>	Unaudited HK\$'000
Net cash from operating activities	<b>195,280</b>	370,547
Net cash from (used in) investing activities	<b>157,649</b>	(36,361)
Net cash used in financing activities	<b>(261,772)</b>	(269,696)
Increase in cash and cash equivalents	<b>91,157</b>	64,490
Exchange adjustments	<b>(159)</b>	171
Cash and cash equivalents at 1st January	<b>607,825</b>	616,681
Cash and cash equivalents at 30th June	<b><u>698,823</u></b>	<b><u>681,342</u></b>
Analysis of the balances of cash and cash equivalents:		
Bank deposits, bank balances and cash	<b>791,404</b>	724,360
Bank overdrafts	<b>(92,581)</b>	(43,018)
	<b><u>698,823</u></b>	<b><u>681,342</u></b>

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 30th June, 2004

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in these condensed financial statements are consistent with those set out in the Group's audited financial statements for the year ended 31st December, 2003.

### 3. SEGMENTAL INFORMATION

Analysis of the Group's business segmental information is as follows:

	Six months ended 30th June, 2004				
	Investment, broking and finance HK\$'000	Consumer finance HK\$'000	Property development and investment HK\$'000	Corporate and other operations HK\$'000	Total HK\$'000
Turnover	496,784	378,946	85,279	14,540	975,549
Less: inter-segment turnover	(5,425)	-	(3,430)	(14,530)	(23,385)
	<u>491,359</u>	<u>378,946</u>	<u>81,849</u>	<u>10</u>	<u>952,164</u>
Profit from operations	151,048	205,635	31,429	16,746	404,858
Other finance costs					(28,709)
Amortisation of goodwill					(3,570)
Release of negative goodwill					129,256
Amortisation of capital reserve					8,633
Share of results of associates					96,538
Share of results of jointly controlled entities	(895)	-	25,543	-	24,648
Profit before taxation					631,654
Taxation					(94,201)
Profit after taxation					<u>537,453</u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***3. SEGMENTAL INFORMATION (CONT'D)**

	Six months ended 30th June, 2003				
	Investment, broking and finance <i>HK\$'000</i>	Consumer finance <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Corporate and other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	286,553	389,500	95,592	15,401	787,046
Less: inter-segment turnover	(5,248)	–	(2,630)	(14,559)	(22,437)
	<u>281,305</u>	<u>389,500</u>	<u>92,962</u>	<u>842</u>	<u>764,609</u>
Profit (loss) from operations	66,710	138,001	(34,746)	(211)	169,754
Other finance costs					(29,064)
Amortisation of goodwill					(3,570)
Release of negative goodwill					113,898
Amortisation of capital reserve					8,634
Share of results of associates					33,961
Share of results of jointly controlled entities	1	–	(1,425)	–	(1,424)
Profit before taxation					292,189
Taxation					(42,002)
Profit after taxation					<u>250,187</u>

Inter-segment transactions have been entered into on terms agreed by the parties concerned.

During the period under review, less than 10% of the operations of the Group in terms of both turnover and results of operations were carried on outside Hong Kong. Accordingly, no geographical segmental information is shown.

**4. FINANCE COSTS**

	Six months ended 30th June,	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total finance costs included in:		
Cost of sales	1,377	2,010
Other finance costs	28,709	29,064
	<u>30,086</u>	<u>31,074</u>



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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***5. IMPAIRMENT LOSSES AND REVALUATION DEFICITS**

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Impairment losses and revaluation deficits comprise:		
Impairment losses recognised in respect of:		
Properties held for sale	–	12,325
Properties under development	–	805
Non-trading securities	<b>690</b>	1,389
	<b>690</b>	14,519
Deficits arising on revaluation of investment properties	–	41,605
	<b>690</b>	<b>56,124</b>

**6. PROFIT FROM OPERATIONS**

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Profit from operations has been arrived at after charging:		
Depreciation	<b>13,743</b>	15,351
Net unrealised loss on trading securities	<b>7,388</b>	594
Loss on dilution of interest in an associate	<b>4,138</b>	–
Amortisation of intangible assets	<b>1,180</b>	583
Loss on disposal of an associate	–	3,088
Loss on disposal of non-trading securities	–	1,348
Net realised loss on trading securities	–	16
and after crediting:		
Interest income	<b>461,510</b>	471,625
Dividend income from investments in listed securities	<b>29,927</b>	7,389
Dividend income from investments in unlisted securities	<b>29,540</b>	8,545
Profit on dealing in foreign currencies	<b>13,630</b>	5,953
Net realised profit on derivatives	<b>6,709</b>	3,160
Profit on other dealing activities	<b>4,149</b>	3,010
Profit on disposal of non-trading securities	<b>3,421</b>	–
Write-back of loss arising from default of loan agreement with Millennium Touch Limited	<b>773</b>	19,332
Net realised profit on trading securities	<b>204</b>	–
Unrealised profit on derivatives	<b>3</b>	–

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

for the six months ended 30th June, 2004

**7. TAXATION**

	<b>Six months ended 30th June,</b>	
	<b>2004</b>	<b>2003</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
The charge comprises:		
Current tax:		
Hong Kong	<b>58,738</b>	31,476
Outside Hong Kong	<b>2,741</b>	3,039
	<b>61,479</b>	34,515
Deferred tax	<b>(2,387)</b>	(2,460)
Taxation attributable to the Company and subsidiaries	<b>59,092</b>	32,055
Share of taxation attributable to associates	<b>11,733</b>	6,018
Share of deferred taxation attributable to associates	<b>17,440</b>	287
Share of taxation attributable to jointly controlled entities	<b>5,936</b>	3,642
	<b>94,201</b>	42,002

Hong Kong Profits Tax is calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits derived from Hong Kong.

Taxation outside Hong Kong is calculated at the rates prevailing in the relevant jurisdictions.

**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the profit attributable to shareholders of HK\$345,790,000 (2003: HK\$156,752,000 as restated) and on the weighted average number of 265,291,853 (2003: 340,986,630) shares in issue during the period as adjusted for the effect of the share consolidation detailed in note 14.

Diluted earnings per share is not presented as the Company had no dilutive potential ordinary shares during both periods.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2004

### 9. INVESTMENTS

	Investments in securities									
	Non-trading securities				Trading securities		Other investments		Total	
	At		At		At		At		At	
	30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003	30th June, 2004	31st December, 2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Listed equity securities, at market value,										
issued by corporate entities										
Hong Kong	363,657	346,734	38,469	29,503	-	-	402,126	376,237		
Outside Hong Kong	2,055	2,903	3,435	4,243	-	-	5,490	7,146		
issued by banks										
Hong Kong	-	-	13,033	12,596	-	-	13,033	12,596		
issued by public utility entities										
Hong Kong	-	-	250	26	-	-	250	26		
	<b>365,712</b>	<b>349,637</b>	<b>55,187</b>	<b>46,368</b>	<b>-</b>	<b>-</b>	<b>420,899</b>	<b>396,005</b>		
Unlisted equity securities issued by corporate entities										
Hong Kong	49,698	63,764	-	-	-	-	49,698	63,764		
Outside Hong Kong (note)	75,421	70,069	-	-	-	-	75,421	70,069		
	<b>125,119</b>	<b>133,833</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>125,119</b>	<b>133,833</b>		
Unlisted marketable debt securities issued by overseas government	-	-	7,794	7,747	-	-	7,794	7,747		
Other unlisted securities	-	-	3,111	384	-	-	3,111	384		
Club debentures, exchange seats, statutory deposits and other deposits with Exchange and Clearing Companies	-	-	-	-	28,168	28,001	28,168	28,001		
Amounts due from investee companies less impairment losses recognised (note)	-	-	-	-	93,521	97,314	93,521	97,314		
	<b>490,831</b>	<b>483,470</b>	<b>66,092</b>	<b>54,499</b>	<b>121,689</b>	<b>125,315</b>	<b>678,612</b>	<b>663,284</b>		
Carrying amount analysed for reporting purposes as:										
Non-current	490,831	483,470	-	-	121,689	125,315	612,520	608,785		
Current	-	-	66,092	54,499	-	-	66,092	54,499		
	<b>490,831</b>	<b>483,470</b>	<b>66,092</b>	<b>54,499</b>	<b>121,689</b>	<b>125,315</b>	<b>678,612</b>	<b>663,284</b>		

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2004

### 9. INVESTMENTS (CONT'D)

Note:

A sum totalling HK\$118,003,000 is included in "Unlisted non-trading securities" and "Amounts due from investee companies" being the amount (excluding interest which has been expensed in prior years) which represents the carrying value of the effective 12.5% interest in a completed project in Kuala Lumpur, Malaysia presently known as "The Renaissance Kuala Lumpur Hotel". Sun Hung Kai & Co. Ltd. ("Sun Hung Kai") is not in possession of full information that would, in the opinion of the management, render it appropriate to make any present provision of impairment against the carrying value. The matter will continue to be reviewed in the light of both probable ongoing litigation and the commercial prospects of the project.

### 10. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	At 30th June, 2004 <i>HK\$'000</i>	At 31st December, 2003 <i>HK\$'000</i>
Loans and advances to consumer finance customers	2,055,845	1,811,429
Allowance for doubtful debts	<u>(163,317)</u>	<u>(143,859)</u>
	1,892,528	1,667,570
Less: Amount due within one year shown under current assets	<u>(1,201,144)</u>	<u>(1,098,364)</u>
Amount due after one year	<u><u>691,384</u></u>	<u><u>569,206</u></u>

Loans made to consumer finance customers are approved by officers or the credit committee as appropriate according to the size of loan amounts. The credit terms of such loans range from six to eighteen months.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

for the six months ended 30th June, 2004

**11. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS**

For trade receivables in respect of securities, bullion and commodities businesses, the Group allows a credit period up to the settlement dates of respective securities, bullion and commodities transactions or a credit period mutually agreed with the contracting parties. The credit terms of other trade receivables range from 30 days to 180 days. Included in accounts receivable, deposits and prepayments are trade receivables totalling HK\$2,475,695,000 (at 31st December, 2003: HK\$2,767,899,000), the aged analysis of which is as follows:

	At 30th June, 2004 HK\$'000	At 31st December, 2003 HK\$'000
0 to 30 days	2,420,753	2,718,315
31 to 180 days	21,253	12,755
181 to 365 days	5,787	3,427
over 365 days	428,495	435,913
	<b>2,876,288</b>	3,170,410
Allowance for doubtful debts	<b>(400,593)</b>	(402,511)
	<b><u>2,475,695</u></b>	<b><u>2,767,899</u></b>

The above balance of HK\$2,876,288,000 (at 31st December, 2003: HK\$3,170,410,000) includes margin loans of HK\$1,545,567,000 (at 31st December, 2003: HK\$1,592,610,000) and term loans of HK\$311,940,000 (at 31st December, 2003: HK\$538,758,000). The maturity profile of term loans is shown in note 23.

There are listed and unlisted securities and properties of clients held as collateral against secured margin loans and term loans. The market value of the listed securities at 30th June, 2004 was HK\$4,736,024,000 (at 31st December, 2003: HK\$5,118,827,000).

The granting of credit in respect of trade receivables of the finance business including secured margin loans and secured term loans are approved and reviewed by the respective credit committees. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts. Specific allowances are made for doubtful debts as and when they are considered necessary by the management and the credit committee. Trade receivables in the balance sheet are stated net of such allowances.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)**

for the six months ended 30th June, 2004

**12. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

Included in accounts payable and accrued charges are trade payables of HK\$1,196,104,000 (at 31st December, 2003: HK\$1,298,768,000), the aged analysis of which is as follows:

	At 30th June, 2004 <i>HK\$'000</i>	At 31st December, 2003 <i>HK\$'000</i>
0 to 30 days	1,096,442	1,212,112
31 to 180 days	22,547	12,041
181 to 365 days	11,373	1,733
Over 365 days	65,742	72,882
	<u>1,196,104</u>	<u>1,298,768</u>

**13. OTHER LIABILITIES**

	At 30th June, 2004 <i>HK\$'000</i>	At 31st December, 2003 <i>HK\$'000</i>
Obligations under a finance lease	526	966
Other employee benefits	6,136	5,346
	6,662	6,312
Less: Amount repayable within one year shown under current liabilities	<u>(1,118)</u>	<u>(1,404)</u>
Amount due after one year	<u>5,544</u>	<u>4,908</u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***14. SHARE CAPITAL**

	<b>Number of shares</b>	<b>Value HK\$'000</b>
Ordinary shares of HK\$0.20 each		
Authorised:		
At 31st December, 2003 and 30th June, 2004	<u>6,500,000,000</u>	<u>1,300,000</u>
Issued and fully paid:		
At 1st January, 2004	2,656,868,308	531,374
Share repurchased and cancellable	<u>(21,818,000)</u>	<u>(4,364)</u>
At 30th June, 2004	<u>2,635,050,308</u>	<u>527,010</u>

During the period, the Company repurchased a total of 21,818,000 of its own ordinary shares at an aggregate cost of approximately HK\$14,287,000, which included transaction costs of approximately HK\$107,000, on the Stock Exchange. The repurchased shares were cancellable upon repurchase and accordingly the issued share capital of the Company was diminished by the nominal amount thereof. The premium on repurchase was charged against accumulated profits.

Subsequent to the period end, an ordinary resolution for approving the consolidation of every ten shares of the Company of HK\$0.2 each into one consolidated share of HK\$2 each was duly passed at an extraordinary general meeting of the Company held on 22nd July, 2004. Immediately after the share consolidation became effective on 23rd July, 2004, the total number of shares in issue was 263,146,830 with an aggregate nominal value of HK\$526,293,660.

**15. RESERVES**

	<b>At 30th June, 2004 HK\$'000</b>	<b>At 31st December, 2003 HK\$'000</b>
Share premium	<u>1,519,481</u>	1,519,481
Property revaluation reserve	35,657	36,691
Investment revaluation reserve	88,464	80,027
Capital redemption reserve	175,138	170,774
Translation reserve	(104,924)	(104,240)
Non-distributable reserve	55,226	55,226
Capital (goodwill) reserve	279,791	295,269
Accumulated profits	<u>1,902,187</u>	<u>1,571,303</u>
	<u>3,951,020</u>	<u>3,624,531</u>

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***16. LOAN NOTES**

	<b><i>HK\$'000</i></b>
<b>Loan notes issued by the Company</b>	
At 1st January, 2003	–
Issued	262,500
Repurchased and cancelled	(123,608)
At 31st December, 2003	138,892
Repurchased and cancelled	(47,980)
At 30th June, 2004	90,912
<b>Loan notes issued by a listed subsidiary</b>	
At 1st January, 2003	–
Issued	255,234
Repurchased and cancelled	(23,597)
At 31st December, 2003	231,637
Repurchased and cancelled	(2,000)
At 30th June, 2004	229,637
<b>Total</b>	
At 30th June, 2004	<u>320,549</u>
At 31st December, 2003	<u>370,529</u>

The loan notes issued by the Company bear interest at 2.25% per annum and are due on 15th August, 2008. The loan notes issued by a listed subsidiary, Sun Hung Kai, bear interest at 4% per annum and are due on 7th March, 2008.



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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***17. CONTINGENT LIABILITIES**

- (a) At 30th June, 2004, the Group had guarantees as follows:

	<b>At 30th June, 2004 HK\$'000</b>	<b>At 31st December, 2003 HK\$'000</b>
Guarantee for banking facility granted to an investee company	<b>7,020</b>	6,989
Indemnities on banking guarantees made available to a clearing house and regulatory body	<b>4,540</b>	4,540
Indemnities on a letter of credit issued by a bank for a loan to a client	–	67,556
Other guarantees	<b>2,265</b>	913
	<b><u>13,825</u></b>	<b><u>79,998</u></b>

- (b) On 9th September, 2002, Sun Hung Kai Investment Services Limited ("SHKIS"), an indirect wholly-owned subsidiary of Sun Hung Kai, was served with a writ attaching a statement of claim by Shenzhen Building Materials Group Co. Limited, a company registered in Shenzhen, the People's Republic of China ("PRC"), claiming the return of certain shares in Shenzhen International Holdings Limited (worth HK\$38,031,000 at 30th June, 2004) together with interest, costs and damages. The actions taken by SHKIS in regard to the shares were based on considered advice from reputable legal counsel, which advice was strictly followed in its implementation. The case remains at an early stage with interlocutory matters still being dealt with. The plaintiffs have taken few steps to progress their action. Notwithstanding, the case is being strenuously defended and at this stage the management takes the view that while a provision has been made for legal costs, it is not appropriate for any other provision to be made with respect to this action.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

*for the six months ended 30th June, 2004*

### 17. CONTINGENT LIABILITIES (CONT'D)

- (c) On 4th February, 2004, Sun Tai Cheung Credits Limited ("STCC"), an indirect wholly-owned subsidiary of Sun Hung Kai, and SHKIS were served with a writ attaching a statement of claim ("200/2004") by Shanghai Finance Holdings Limited ("SFHL"), claiming, inter alia, that the sale of the shares in Shun Loong Holdings Limited ("SLHL") ("Shun Loong Shares") by STCC as assignee to SHKIS (for a consideration of HK\$36,500,000 subject to additional amounts of HK\$15,700,000 which may be payable one year from the date of completion under certain conditions) pursuant to a sale and purchase agreement dated 25th June, 2003 be set aside, or alternatively, against STCC for damages and the amount received by STCC in respect of the Shun Loong Shares. The writ is being vigorously defended. STCC and SHKIS were properly advised at all times during the transaction and firmly believe that there is no basis to the claim and have applied to have the claim struck-out. The strike-out hearing is presently scheduled to be heard on 28th October, 2004. While a provision has been made for legal costs, at this stage the management takes the view that it is not appropriate for any other provision to be made with respect to this action.
- (d) The Group understands that a further writ was issued by New World Development Company Limited ("New World") in April 2004, naming Sun Hung Kai Securities Limited ("SHKS"), a wholly-owned subsidiary of Sun Hung Kai, as defendant, and claiming the sums of HK\$27,237,490 and HK\$7,697,418 and interest thereon from March 2000 and January 2001 respectively. The writ has not been served on SHKS. If served, it will be vigorously defended. While a provision has been made for legal costs, at this stage the management takes the view that it is not appropriate for any other provision to be made with respect to this action.

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**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)***for the six months ended 30th June, 2004***18. CAPITAL COMMITMENTS**

	At 30th June, 2004 <i>HK\$'000</i>	At 31st December, 2003 <i>HK\$'000</i>
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Property development projects	8,900	13,350
Others	9,769	2,810
	<u>18,669</u>	<u>16,160</u>
Capital expenditure authorised but not contracted for:		
Others	5,215	16,205
	<u>5,215</u>	<u>16,205</u>

**19. LEASE COMMITMENTS**

At 30th June, 2004, the Group had outstanding minimum lease payments under non-cancellable operating leases, which fall due as follows:

	At 30th June, 2004		At 31st December, 2003	
	Land and buildings <i>HK\$'000</i>	Others <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Others <i>HK\$'000</i>
Within one year	38,104	1,606	43,884	927
In the second to fifth years inclusive	48,508	–	14,273	38
	<u>86,612</u>	<u>1,606</u>	<u>58,157</u>	<u>965</u>

Operating leases are negotiated for terms ranging from one to four years.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2004

### 20. PLEDGE OF ASSETS

At 30th June, 2004, certain of the Group's investment properties, land and buildings, properties under development and properties held for sale with an aggregate carrying value of HK\$2,790,457,000 (at 31st December, 2003: HK\$2,791,950,000), listed investments belonging to the Group and margin clients with a carrying value of HK\$992,580,000 (at 31st December, 2003: HK\$792,489,000) together with certain securities in respect of listed subsidiaries held by the Company and its subsidiaries, the net book value of which in their respective accounts totalling HK\$3,165,118,000 (at 31st December, 2003: HK\$3,935,318,000) were pledged to secure loans and general banking facilities to the extent of HK\$3,588,467,000 (at 31st December, 2003: HK\$3,777,516,000) granted to the Group. Facilities amounting to HK\$1,658,257,000 (at 31st December, 2003: HK\$1,964,936,000) were utilised at 30th June, 2004.

At 30th June, 2004, a bank deposit of HK\$1,362,000 (at 31st December, 2003: HK\$1,487,000) was pledged to secure a bank guarantee amounting to HK\$2,000,000 (31st December, 2003: HK\$2,000,000).

### 21. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions with related parties during the period:

- (a) Summary of income and expense items:

	(Income)/Expense	
	Six months ended 30th June,	
	2004	2003
	<u>HK\$'000</u>	<u>HK\$'000</u>
Property management and air-conditioning fees and other property related service fees from a jointly controlled entity	(6,999)	(7,706)
Administration and management fees from a jointly controlled entity	(1,180)	(930)
Rent, property management and air-conditioning fees to a jointly controlled entity	4,710	6,086
Interest income from an associate	(4,004)	(7,982)
Insurance premiums from an associate	(3,250)	(1,249)
Rent, property management and air-conditioning fees and other related service fees from an associate	659	(876)
Dividend income from an associate	-	(1,100)
	<u>          </u>	<u>          </u>

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

*for the six months ended 30th June, 2004*

### 21. RELATED PARTY TRANSACTIONS (CONT'D)

- (b) During the period, both a subsidiary of the Group and a joint venture partner, each having a 50% interest in a jointly controlled entity, received and repaid various interest free loans from such jointly controlled entity. At 30th June, 2004, the amounts lent to the Group totalled HK\$179,000,000 (at 30th June, 2003: HK\$178,000,000).
- (c) On 28th January, 2004, a new promissory note of HK\$87,000,000 due on 30th December, 2004 was issued by a listed associate bearing interest at 5% per annum. The new promissory note was issued as repayment in part of a promissory note of HK\$145,000,000 and its outstanding interest that was due on 30th December, 2003. The remaining balance was repaid by cash.
- (d) A promissory note of HK\$57,144,000 issued by a listed associate with accrued interest of HK\$1,398,000 was repaid during the period. The listed associate also repaid RMB4,000,000 (equivalent to HK\$3,759,000) to the Group for the settlement of outstanding sales proceeds for the disposal of a house in the PRC in previous years.

The above transactions have been entered into on terms agreed by the parties concerned.

### 22. SUBSEQUENT EVENTS

- (a) Subsequent to the period end, every ten shares of the Company of HK\$0.2 each were consolidated into one consolidated share of HK\$2 each. Details of the share consolidation are set out in note 14.
- (b) On 19th May, 2004, Tailwind Consultants Limited ("Vendor"), a wholly-owned subsidiary of Sun Hung Kai, entered into a conditional agreement with Asia Coast Investments Limited ("Purchaser"), a wholly-owned subsidiary of Tian An China Investments Company Limited ("Tian An"), in respect of the sale of the Vendor's 17.29% equity interest in CBI Investment Limited for a consideration of HK\$28,000,000 to the Purchaser. Under the terms of the agreement, the consideration is to be settled by HK\$3,000,000 cash and a HK\$25,000,000 promissory note issued by Tian An. The agreement was completed on 5th August, 2004 and resulted in a loss of HK\$715,000.
- (c) On 27th August, 2004, Sun Hung Kai repurchased its loan notes with a face value of HK\$100,000,000 for a consideration of HK\$98,500,000 that resulted in a profit of HK\$1,500,000.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2004

### 23. MATURITY PROFILE OF TERM ASSETS AND LIABILITIES

The following table lists the assets and liabilities of the Group which have a term of maturity. Overdue assets are included as on demand.

	At 30th June, 2004					Total HK\$'000
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	
<b>Assets</b>						
Fixed deposits with banks	-	192,493	-	-	-	192,493
Loans and advances to finance customers	151,016	294,023	860,143	738,668	11,995	2,055,845
Promissory note of a listed associate	-	-	87,000	-	-	87,000
Loan note of a listed associate	-	-	-	78,000	-	78,000
Term loans	221,525	38,948	51,467	-	-	311,940
Marketable debt securities	-	7,794	-	-	-	7,794
<b>Liabilities</b>						
Bank and other borrowings	-	345,307	674,160	750,219	98,362	1,868,048
Loan notes	-	-	-	320,549	-	320,549
Obligations under a finance lease	-	224	302	-	-	526
<b>At 31st December, 2003</b>						
	On demand HK\$'000	Within 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	After 5 years HK\$'000	Total HK\$'000
<b>Assets</b>						
Fixed deposits with banks	-	251,080	-	-	-	251,080
Loans and advances to consumer finance customers	135,889	325,766	731,818	609,120	8,836	1,811,429
Promissory notes of a listed associate	202,144	-	40,419	-	-	242,563
Loan notes of a listed associate	-	-	-	78,000	-	78,000
Term loans	175,405	281,886	81,467	-	-	538,758
Marketable debt securities	-	7,747	-	-	-	7,747
<b>Liabilities</b>						
Bank and other borrowings	-	625,877	484,405	829,870	111,565	2,051,717
Loan notes	-	-	-	370,529	-	370,529
Obligations under a finance lease	-	219	671	76	-	966

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (CONT'D)

for the six months ended 30th June, 2004

### 24. COMPARATIVE FIGURES

A listed associate of the Group subsequently adjusted the prior year adjustment for the adoption of SSAP 12 (Revised) "Income Taxes" after the preparation of its interim report for the six months ended 30th June, 2003. As a result, the comparatives of the condensed financial statements have been restated to take into account the effect of the Group's share of the adjustment. A reconciliation of the total equity at 1st January, 2003 is set out below. In addition, the profit for the six months ended 30th June, 2003 is reduced by HK\$7,270,000.

	<u>HK\$'000</u>
Total equity at 1st January, 2003	
– As originally stated in last interim report	4,022,402
– Effect of revised prior year adjustment	(33,109)
	<u>                    </u>
– Audited amount as reported in the annual report for the year ended 31st December, 2003	<u>3,989,293</u>

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## INTERIM DIVIDEND

The Directors do not recommend the declaration of an interim dividend (2003: Nil). However, it should be noted that the Company continued to repurchase its shares during the period as detailed in the section "Purchase, Sale or Redemption of Shares" on page 34. The effect of share repurchases, in particular the completion of the general offer to repurchase 750,000,000 shares in September 2003, is already evident in the interim results for 2004. Earnings per share rose by 183% over 2003, compared to a corresponding increase of only 121% in total earnings. The Company will continue to use surplus cash to repurchase its shares for cancellation.

## FINANCIAL REVIEW

The Group reported a profit attributable to shareholders for the period of approximately HK\$345.8 million, an increase of 121% compared to approximately HK\$156.8 million for the corresponding period of last year. The increase was the result of a stronger performance from the Group's financial services businesses and following the recovery in the property market, it was not appropriate for further provisions to be made against the Group's Hong Kong property portfolio.

### Financial Resources, Liquidity and Capital Structure

At 30th June, 2004, the net assets of the Group amounted to HK\$4,478.0 million, representing an increase of HK\$322.1 million or approximately 7.8% from that of 31st December, 2003. The Group's short term bank deposits, bank balances and cash amounted to HK\$792.8 million (at 31st December, 2003: HK\$764.6 million). The Group's bank loans and other borrowings, together with loan notes, totalled HK\$2,188.6 million (at 31st December, 2003: HK\$2,422.2 million) of which the portion due on demand or within one year was HK\$1,019.5 million (at 31st December, 2003: HK\$1,110.3 million), and the remaining long term portion was HK\$1,169.1 million (at 31st December, 2003: HK\$1,311.9 million). The liquidity of the Group as evidenced by the current ratio (current assets/current liabilities) was 1.84 times (at 31st December, 2003: 1.79 times). The Group's gearing ratio (net bank and other borrowings together with loan notes/net assets) was 31.2% (at 31st December, 2003: 39.9%). During the period, the Group's net repayment of bank loans and other borrowings were primarily funded by the net cash inflow from operating activities and investing activities.

Most of the bank and other borrowings of the Group are subject to floating interest rates.

Subsequent to the period end, an ordinary resolution for approving the consolidation of every ten shares of the Company of HK\$0.2 each into one consolidated share of HK\$2 each was duly passed at an extraordinary general meeting of the Company held on 22nd July, 2004. Immediately after the share consolidation became effective on 23rd July, 2004, the total number of shares in issue was 263,146,830 with an aggregate nominal value of HK\$526,293,660.



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## **FINANCIAL REVIEW (CONT'D)**

### **Risk of Foreign Exchange Fluctuation**

There have been no significant changes in the exposures to foreign exchange risks from those outlined in the Company's annual report for 2003.

### **Acquisition and Disposal**

There were no material acquisitions and disposals of subsidiaries, associates and jointly controlled entities during the period.

### **Contingent Liabilities**

Details regarding the contingent liabilities are set out in note 17 to the condensed financial statements on pages 17 and 18.

### **Material Litigation Update**

- (a) Shun Loong Finance Limited and SLHL (together the "Petitioners"), both wholly-owned subsidiaries of Sun Hung Kai, filed a winding-up petition on 19th February, 2004 in the British Virgin Islands ("BVI") seeking an order that SFHL be wound up by reason of its failure to pay debts owing to the Petitioners. BVI proceedings are presently stayed pending the outcome of 200/2004, the Hong Kong proceedings mentioned in note 17(c) to the condensed financial statements on page 18.
- (b) Sun Hung Kai, STCC and SHKIS filed a writ on 7th February, 2004 (230/2004) naming as defendants Shanghai Land Holdings Limited, Stephen Liu Yiu Keung, Yeo Boon Ann, The Standard Newspapers Publishing Limited and Hong Kong Economic Times Limited and claiming damages for libel, injunctive relief, interest and costs. The case remains at an early stage.
- (c) An appeal has been lodged by SHKS against the judgment delivered by the Hong Kong High Court in favour of New World on 1st April, 2004. The appeal is based on considered advice from senior legal counsel and is likely to be heard in July 2005.

### **Pledge of Assets**

Details regarding the pledge of assets are set out in note 20 to the condensed financial statements on page 20.

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## OPERATIONAL REVIEW

### Financial Services

#### *Consumer finance*

The profit contribution from United Asia Finance Limited (“UAF”) increased substantially in the first half of 2004, with bad debt charges decreasing significantly in line with the lower number of personal bankruptcies.

UAF’s loan portfolio grew substantially during the period. This was due to :- (a) aggressive advertising and promotional campaigns, and (b) the acquisition from a credit card operator of its credit card loan portfolio together with the related customer database, which acquisition enabled UAF to substantially increase its customer base and provided opportunities for cross-selling of its products and services.

UAF relocated a number of branches to better locations in order to improve overall customer traffic and operating efficiency.



#### *Broking and finance*

Sun Hung Kai recorded a profit attributable to its shareholders of HK\$202.9 million, representing an increase of 133% compared with the same period of last year.

The turnover and brokerage income of Sun Hung Kai’s securities broking division enjoyed strong growth in line with the buoyant stock market conditions. New account openings increased significantly during the period, benefiting from a surge in capital-raising and corporate activities. Sun Hung Kai participated in 42 issues including new share offerings, sub-underwritings and placements of equities for clients.

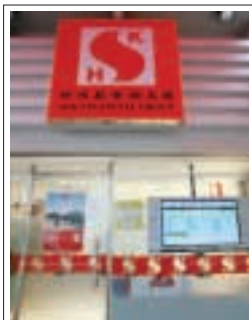
The income stream derived by Sun Hung Kai as a liquidity provider of derivative warrants and equity linked instruments to derivative issuers increased by more than 60% compared with the previous half year. Income from institutional and corporate clients also increased considerably, compensating for the lower income earned through the provision of third party execution services to non-exchange participants.

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## OPERATIONAL REVIEW (CONT'D)

### Financial Services (Cont'd)



*Tsuen Wan Branch  
of Sun Hung Kai*

Sun Hung Kai has been able to maintain a similar level of outstanding loans on its margin finance book to that experienced in the corresponding 2003 period.

SHK Online began 2004 with strong momentum, establishing a new record in January for monthly net profit. New accounts and turnover continued to grow throughout the first quarter, while the second quarter was somewhat quieter. As a whole, the number of accounts increased by 22% during the first half of 2004. The recent launch of SHK Online's US trading facility, provided through Pershing LLC, together with additional products planned for the eFutures channel, is expected to provide impetus for future growth.

### Properties

#### *Hong Kong*

Allied Properties (H.K.) Limited ("Allied Properties") reported a 262% increase in profit attributable to its shareholders to HK\$251.1 million. This can be attributed to the followings:- (a) with a rising property market, there was no need for further provisions against Allied Properties' Hong Kong property portfolio, and (b) Allied Properties' continuing efforts to reduce operating costs and interest costs as well as to

maximise its recurrent rental income. Allied Properties' property portfolio continued to produce stable and satisfactory recurring income for the Group. Major income contributors included Novotel Century Hong Kong hotel, Allied Kajima Building, China Online Centre and St. George Apartments.



*Century Court*



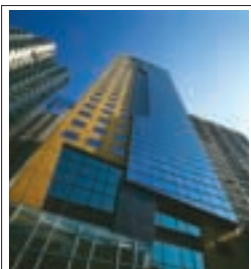
*Allied Cargo Centre*

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## OPERATIONAL REVIEW (CONT'D)

### Properties (Cont'd)



*Ibis North Point*

Phase two of Ibis North Point is nearing completion and is anticipated to be fully operational before the end of this year. When this 275-room hotel on Java Road is completed, Allied Properties' recurrent income is expected to increase further.

Following the completion of Ibis, all of Allied Properties' development projects in Hong Kong will have been completed. Allied Properties will continue to assess opportunities for appropriate property investments should they arise.

### Mainland PRC

Although total sales of gross floor area attributable to Tian An, a 48.16% owned listed associate of Sun Hung Kai, during the period under review decreased to 120,100 sq. m. from 146,920 sq. m., profit attributable to its shareholders amounted to HK\$52.3 million for the period, representing a significant growth of 297% compared to the corresponding period

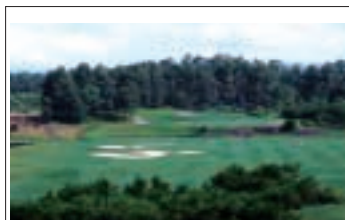


*Dalian Tian An Tower*



*Beijing Fu Hua Building*

of last year. The sharp improvement in the results for the period was mainly attributable to stronger contributions from property sales and the focus by Tian An on products of higher profit margin.



*Zhaoqing Resort & Golf Club*

Although the austerity measures taken by the PRC government to reduce speculative growth are expected to inevitably affect Tian An's immediate earnings growth, Tian An is confident, with its streamlined structure, in its pursuit of its long-term growth strategy into the second half of 2004, and beyond.

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## OPERATIONAL REVIEW (CONT'D)

### Investments

#### *Quality HealthCare Asia Limited ("QHA")*



*Quality HealthCare Medical Centre*

QHA, a 29.71% associate of Sun Hung Kai, has been successful in delivering a significantly improved profit performance for the first six months of 2004. This result has been achieved through a combination of sustained effort by both its frontline healthcare professionals and the back-office team and has been driven by management's focus on core business and effective cost control. Cashflows strengthened over the period, resulting in lower financing charges.

QHA continues to support the government in its public-private partnership initiatives in the healthcare sector, and looks forward to further collaboration on programmes for the benefit of the Hong Kong community.

#### *Yu Ming Investments Limited ("Yu Ming")*

During the period, the major investments of Yu Ming were in international bonds, the Argyle Centre shopping mall in Mongkok, and the International Exhibition Centre ("IEC") at the Hong Kong International Airport.

The high-yield bond portfolio of Yu Ming continues to provide reliable income to Yu Ming. As the property market improved throughout the period, Yu Ming also sold some retail shops in the Argyle Centre. For the IEC property, significant bookings were secured from both local and overseas exhibition organisers well in advance of its scheduled opening in 2006.

#### *Shanghai Allied Cement Limited ("SAC")*

The profit attributable to shareholders for the first half of 2004 of SAC was HK\$13.5 million, representing an increase of 2.7% as compared with the same period last year. The increase was mainly due to the continued growth of the domestic economy and implementation of cost control measures. It is anticipated by SAC that its new Shandong plant will commence production in late 2004 and should enable it to progress towards its target cement production capacity of 3,000,000 tonnes per annum.

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## OPERATIONAL REVIEW (CONT'D)

### Employees

The total number of staff of the Group at 30th June, 2004 was 2,214 (at 31st December, 2003: 2,150). The Group reviews remuneration packages from time to time and normally annually. Besides salary payments, other staff benefits include contributions to employee provident funds, medical subsidies and a discretionary bonus scheme.

### Management of Risks

The management of risks in respect of the Group's finance businesses is primarily conducted by UAF and Sun Hung Kai. There have not been any significant changes in the management of such risks from that described in the Company's annual report for 2003.

## BUSINESS OUTLOOK

The recovering Hong Kong economy is encouraging for the future performance of the Group. With deflation subsiding and the employment rate improving, the Board expects that the economy and the real estate market in Hong Kong should perform well in the near future. Nevertheless, recent upward price fluctuations of crude oil and the rising trend of interest rates are cautionary factors impacting on the future economic outlook. The management will make every effort to deliver a satisfactory performance by the Group for the full year and to maximise returns for all shareholders.

## DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

The following information is disclosed pursuant to Rules 13.20 and 13.22 of the Listing Rules.

- (a) At 30th June, 2004, the Group had advances to an entity which exceeded 8% of the market capitalisation of the Company. Pursuant to Rule 13.20 of the Listing Rules, the details of the advances are set out as follows:

<b>Name of entity</b>	<b>Advances at 30th June, 2004</b>
Tian An	HK\$165,836,000 (Note)

Note:

This amount comprises the following:- (i) promissory note issued by Tian An of HK\$87,000,000 to a wholly-owned subsidiary of Sun Hung Kai on 28th January, 2004 which is unsecured and bears interest at 5% per annum payable on a semi-annual basis. The promissory note will mature on 30th December, 2004; (ii) loan note issued by Tian An of HK\$78,000,000 to Sun Hung Kai on 29th August, 2003 which is unsecured and bears interest at 2.5% per annum payable on an annual basis. The loan note will mature on 29th August, 2008; and (iii) accounts receivable from Tian An and its subsidiaries arising from the normal course of business of HK\$836,000.

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**DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES  
(CONT'D)**

- (b) At 30th June, 2004, the Group had advances to certain affiliated companies totalling HK\$249,659,000 (before the Group's provision of HK\$18,726,000), which exceeded 8% of the market capitalisation of the Company. Pursuant to Rule 13.22 of the Listing Rules, the proforma unaudited combined balance sheet of these affiliated companies based on their latest financial statements available is set out as follows:

	<i>HK\$'000</i>
Proforma combined balance sheet:	
Non-current assets	5,988,683
Current assets	3,274,491
Current liabilities	(3,387,823)
Non-current liabilities	(1,521,509)
Minority interests	(412,269)
	<u>3,941,573</u>
Group's proforma attributable interests	<u>1,057,000</u>

**SHARE OPTION SCHEME**

No option was granted under the share option scheme of the Company during the six months ended 30th June, 2004, nor was there any option outstanding at 31st December, 2003 and 30th June, 2004.

**DIRECTORS' INTERESTS**

At 30th June, 2004, Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, had the following interests in the shares of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO"):

<b>Name of Director</b>	<b>Number of shares held</b>	<b>Approximate % of the issued share capital</b>	<b>Nature of interest</b>
Lee Seng Hui	1,019,066,142	38.62%	Personal interest (held as beneficial owner) in 229,216 shares and other interest in 1,018,836,926 shares (Note 1)
Lee Su Hwei	1,018,836,926	38.61%	Other interest (Note 1)

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## DIRECTORS' INTERESTS (CONT'D)

Notes:

1. Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust which indirectly held 1,018,836,926 shares of the Company.
2. All interests stated above represent long positions.

Save as disclosed above, at 30th June, 2004, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation, within the meaning of Part XV of the SFO, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30th June, 2004, the following shareholders had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate % of the issued share capital	Notes
Cashplus Management Limited ("Cashplus")	260,390,000	9.86%	–
Zealous Developments Limited ("Zealous")	260,390,000	9.86%	1,2
Minty Hongkong Limited ("Minty")	758,446,926	28.74%	–
Lee and Lee Trust	1,018,836,926	38.61%	3,4
China Online (Bermuda) Limited (now known as COL Capital Limited) ("COL Capital")	213,848,944	8.10%	5

Notes:

1. This figure refers to the same interest of Cashplus in 260,390,000 shares of the Company.
2. Cashplus is a wholly-owned subsidiary of Zealous. Zealous was therefore deemed to have an interest in the shares in which Cashplus was interested.
3. Minty and Zealous are wholly owned by the trustees of Lee and Lee Trust, being a discretionary trust.
4. Mr. Lee Seng Hui and Ms. Lee Su Hwei, Directors of the Company, together with Mr. Lee Seng Huang are the trustees of Lee and Lee Trust. They were therefore deemed to have an interest in the shares in which Minty and Zealous were interested.



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## **SUBSTANTIAL SHAREHOLDERS' INTERESTS (CONT'D)**

5. The interest includes the holding of: (i) 139,295,704 shares held by Honest Opportunity Limited ("Honest Opportunity"), a wholly-owned subsidiary of Classic Fortune Limited ("Classic Fortune") which in turn is a wholly-owned subsidiary of COL Capital; and (ii) 74,553,240 shares held by Focus Clear Limited ("Focus Clear"), a wholly-owned subsidiary of Besford International Limited ("Besford") which in turn is a wholly-owned subsidiary of COL Capital. COL Capital was therefore deemed to have an interest in the shares in which Honest Opportunity, Classic Fortune, Focus Clear and Besford were interested.
6. All interests stated above represent long positions.

Save as disclosed above, the Company had not been notified of any other person who had an interest or a short position in any shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO at 30th June, 2004.

## **CORPORATE GOVERNANCE**

### **Audit Committee Review**

The audit committee of the Company ("Audit Committee") has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial report for the six months ended 30th June, 2004. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKICPA, and on the interim results announcements of the listed associates, as well as obtaining reports from management. The Audit Committee has not undertaken detailed independent audit checks.

### **Code of Best Practice**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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## PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, the Company made the following purchases of its own shares on the Stock Exchange:

Month of purchases	Number of shares purchased	Purchase consideration per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2004	3,918,000	0.68	0.64	2,610,100
May 2004	8,846,000	0.67	0.58	5,731,600
June 2004	9,054,000	0.67	0.62	5,838,460

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the six months ended 30th June, 2004.

By Order of the Board  
**Sir Gordon Macwhinnie**  
*Chairman*

16th September, 2004